



**EDISON ELECTRIC
INSTITUTE**

May 6, 2003

The Honorable Robert G. Card
Under Secretary of Energy
U.S. Department of Energy
1000 Independence Avenue, S.W.
Washington, D.C. 20585

Re: Further Comments on Key Policy Issues in Reporting Reforms under Energy
Policy Act Section 1605(b)

Dear Mr. Card:

On behalf of the Electric Power Industry Climate Initiative (EPICI),¹ I would first like to express our appreciation for the opportunity to meet with you and other Department of Energy (DOE) officials on April 1, 2003. As you know, EPICI has a critical interest in the DOE revision of the Energy Policy Act (EPA) section 1605(b) guidelines and the enhancement of the Energy Information Administration (EIA) data base and registry.

The primary purposes of the March 5, 2003, position papers that EPICI filed with DOE were twofold:

- To make it abundantly clear that the ability of the power sector to meet the goals that it expressed in its climate action plans to DOE Secretary Spencer Abraham (prior to the February 12, 2003, roll out of the voluntary Power PartnersSM programs) is directly linked to the design of the reporting reforms embodied in the revised guidelines and improved registry.
- To highlight and clarify our positions on several policy issues that need to be resolved in order to support the power sector's voluntary goals and programs, including dissuading the government from narrowing the existing reporting guidelines to provide for entity-wide reporting only and limiting such reporting to the U.S. only.

¹ EPICI consists of the American Public Power Association, Edison Electric Institute, Electric Power Supply Association, Large Public Power Council, National Rural Electric Cooperative Association, Nuclear Energy Institute and Tennessee Valley Authority.

The purposes of this letter, which EPICI requests that DOE place in the public docket of the 1605(b) revision proceeding, are to 1) amplify on several key policy issues covered in our March 5 papers and discussed with you on April 1 and 2) provide you with some concrete examples of how reporting would work under alternative greenhouse gas (GHG) accounting approaches.

I. A “One-Size-Fits-All” Approach To Defining The Reporting Entity Is Impractical.

One of the critical issues in revising the guidelines is the question of how to characterize or define what is an “entity” for reporting purposes. We are not familiar with alternative characterizations that might already exist in places such as the Internal Revenue Service (IRS), so it is difficult for us to ascertain whether any of them would be useful, workable and adequate in the context of the revised section 1605(b) guidelines.

However, in discussions with Department of Treasury officials a few days ago, we learned that some have suggested use of the employer identification number (EIN) as a way to define entities. That approach strikes us as raising more problems than it solves. One involves the issue of confidentiality of identification numbers, since some persons have Social Security numbers for EIN purposes with the IRS. Those could not be disclosed. In addition, in the case of public access of the data, it would be difficult for members of the public to determine the identity of the numbered entity without some system for correlating the EIN with the name of the entity. There are probably a host of other difficulties as well.

What is important is that any proposed definition or characterization takes into consideration and ultimately accommodates the various differences and potential uniqueness of the facilities, operations and business and relevant practices of the reporters that may be expected to participate in the registry. EPICI’s “Entity-wide Reporting” paper of June 5, 2002 – which was filed with DOE and is enclosed for your convenience – addresses many of the issues discussed on April 1 as well as your question about “What doesn’t fit?”. The paper discusses structural, operational and adjustment issues, as well as several sub-issues. We question the need for a definition of either the term “entity” or “person,” so long as such terms include reporters from both the private and public sectors.²

² EPAAct section 1605(b) expressly refers not only to “entities,” but also to “reporting entity” and “Persons,” as well as “sources,” “plant” and “facility” without defining any of those terms. The only relevant provision that is akin to a definition is found in the current 1605(b) guidelines, which state that a reporter “must be a legal U.S. entity, that is, any U.S. citizen or resident alien; any company, organization, or group incorporated under or recognized by U.S. law; or any U.S. Federal, state, or local government entity.”

Furthermore, a one-size-fits-all approach to defining reporting entity would be inconsistent with the manner in which, for example, many power generators and utilities are legally structured. AES, one of the world's largest independent power producers, is a prime example: each of its generation plants is a separate legal entity, and the company is completely decentralized from an operational standpoint. There are numerous other examples of utilities that due to unbundling or restructuring, are disaggregated into separate legal entities, or where a single legal entity owns a group of plants.

EPICI urges the government to propose a "building block" approach to these terms: that is, allow the reporter to check one or more appropriate boxes, such as association (as an aggregator for small municipalities or small rural electric cooperatives), holding company, operational company, plant, facility, person, or "other ____". This check-the-boxes approach is consistent with a robust reporting system. See "EPICI Positions on Key Policy Issues in Revising EPCa Section 1605(b) DOE Guidelines and EIA Registry" (hereinafter referred to as "EPICI Positions Paper"), March 5, 2003, pp. 5-8. Transparency, such as by the building-block approach to defining reporting entity that would include an explanation by the reporter of the basis for the choice of a box, is a key to making a robust reporting system work.

Finally, it is worth noting that even using a broad definition of entity will not eliminate the need for project-level reporting. For example, electricity generators could undertake a project to improve the efficiency of a fossil generating unit, or switch fuel use at a unit from coal to gas. Reporting such an activity at the "entity" level would require that the generating unit be its own entity. In reality, most if not all of the generating units in the industry are not structured this way. It is more common to find a single utility directly owning numerous generating units. As a result, most generators would need to be able to report at a project level in order to receive credit for such a project.

II. The Purpose Of 1605(b) Is Not To Establish An Inventory Through Entity-wide Reporting.

The EPICI position on this issue, summarized in the March 5 "EPICI Positions Paper," is that section 1605(b) is not directed at the establishment of an inventory through entity-wide reporting. That is a role that EIA plays under EPCa section 1605(a). Further, because the last sentence of section 1605(a) provides that the subsection "does not provide any new data collection authority," the aforementioned EIA inventory is based on **estimates**, not collected emissions. Our views on this issue are further highlighted in the enclosed excerpt from the March 5 "EPICI Positions Paper."

III. Entity-wide Reporting (on an Absolute and Intensity Basis) and Project-based Reporting

Regardless of whether an entity or person chooses to report on an entity-wide basis, a project basis, or both, it should have the flexibility to report either a modified baseline or a historic baseline. In the EPICI "Transferable Credits For Voluntary Reductions In GHG Emissions Intensity" paper, June 5, 2002, pp. 8-9, EPICI commented to DOE that since the baseline is the starting point for measuring GHG emissions reductions that would qualify as a transferable credit, the guidelines for reporting transferable credits should allow flexibility for the establishment of one or more baselines, static or dynamic, provided that a prescribed methodology is followed for each baseline selected.

In addition, flexibility in the selection of baselines would support the Administration's policy goal of achieving reductions in GHG emissions intensity through voluntary actions. It also would maximize the extent of voluntary participation in the reporting of GHG emissions reduction actions. Finally, flexibility in the selection of a baseline also would facilitate efforts to provide credit for past actions.

In the examples below, we demonstrate: 1) the differences among project-based reporting, entity-wide reporting on an absolute tons basis, and entity-wide reporting on an intensity basis; and 2) the need for project-based reporting.

Comparison of Entity-wide and Project-based Reporting for a Hypothetical Utility

Consider a hypothetical utility. In 2002, this utility had 1800 MW of coal, 2400 MW of nuclear, and 350 MW of gas combustion turbine generation capacity. In that year:

- Total generation was 32.6 TWH,
- Total carbon emissions were 12.3 million metric tons, and
- The carbon emissions intensity was .38 metric tons per MWH

By 2012, the utility will add 500 MW of natural gas combined cycle capacity, reduce the heat rate of its coal units, and institute a peak-shaving demand-side management (DSM) project. The generation projects would add a total of 10% to generation, with a net increase of 9.6% after the reduction in demand from the DSM project.

In 2012:

- Total generation will be 35.7 TWH,
- Total carbon emissions will be 13.6 million metric tons, and
- The carbon emissions intensity will still be .38 metric tons per MWH.

Entity-wide, Absolute Emissions Approach. Under an approach where transferable credits could only be earned for absolute reductions in entity-wide emissions, this utility would receive no credits in 2012, because it is a growing utility, and its emissions have grown by 1.3 million metric tons, from 12.3 to 13.6 million metric tons, or about 10%.

Entity-wide, Emissions Intensity/Emissions Rate Approach. Under an approach where transferable credits also could be earned for reductions in the entity-wide emissions intensity or emissions rate, this utility still would receive no credit in 2012, because its emissions rate has remained constant at .38 metric tons per MWH.

Project-based Approach. However, in examining this utility's actions more closely, one sees that it has provided real emissions reductions. As a result, it would need to be able to report at a project level in order to receive credit for the two actions that do make such contributions. In the examples below, we demonstrate why the actions do make real reductions, and quantify the project benefits that should receive transferable credit.

Example 1 – Heat rate improvement project: By 2012, this hypothetical utility will have improved the heat rate of its coal units by 1 percent. As a result, the electricity produced by those units will result in 1 percent fewer carbon emissions than would be the case without this project. Assuming that these coal units produce about 12.6 TWH, this project would result in real reductions of about 117,000 metric tons of carbon. Without a project-based approach, this utility would not get any transferable credit for this activity, even though it provided real reductions.

Example 2 – DSM project: By 2012, this utility also will have initiated a peak-shaving DSM program, resulting in a reduction in the capacity factor of the gas combustion turbines from 35% to 30%. Assuming that about 150 GWH of combustion turbine generation is avoided, without any compensating increase in any other generation, about 89,000 metric tons of carbon have not been emitted as a result of this project. Once again, this utility has taken action that resulted in real reductions that would contribute to achieving the national goal, but could not receive transferable credit without project-based reporting.

As a result of these two projects, this utility has reduced its emissions more than 200,000 metric tons below what it would have been without the projects. It should be able to receive transferable credits for this contribution.

These examples, which are typical of the types of on-system voluntary actions likely to be undertaken by the electric power industry as part of Power PartnersSM, illustrate three important conclusions relevant to the design of the revised 1605(b) reporting guidelines:

1. Identification of real emission reductions requires project-based reporting.
2. Entity-wide reporting alone will mask the reductions achieved through individual voluntary projects, primarily due to the effects of load growth.
3. The addition of entity-wide reporting does not provide additional corroboration, or otherwise add value, to project-based reports, because the entity-wide report will reflect the net effect of multiple actions, and cannot be easily correlated with the project-based report.

The examples associated with our hypothetical utility are plausible and are not extreme. We could show decreasing entity-wide intensity, *e.g.*, by adding a nuclear upgrade. Alternatively, without the DSM project in our hypothetical case, intensity would probably increase. Thus, credit for project-based actions is critical even in cases where entity-wide intensity does not decrease. Although our hypothetical case shows intensity essentially unchanged, we expect that the voluntary initiatives will result in declining industry-wide intensity, especially when considering the full range of on-system and off-system actions.

It should be recognized that these are examples of on-system projects for which we seek recognition of their reductions. These are in addition to off-system domestic projects and international projects, such as those involving sequestration. Like the current guidelines, the revised guidelines should continue to give recognition to these off-system project reductions, independent of the resolution of the entity-wide reporting issue.

We also emphasize that when the President used the term "real emission reductions" in the context of transferable credits, we believe that he did not intend to convey the view that this meant only absolute tonnage reductions. Rather, we presume that he intended that term to be applied in the context of his GHG intensity policy, which we understand to mean real reductions in intensity or tons.

IV. Conclusion

The EPICI March 5 position papers and these further comments are intended in large part to dissuade the government from narrowing the existing reporting guidelines to provide for entity-wide reporting only and limit such reporting to the U.S. only (whether for the purpose of receiving credit or for other reasons). The core principles of multiple purposes, flexibility, participation and practicality argue for project-based reporting by an entity or person. EPICI has strongly endorsed the need for flexibility in the revised guidelines and participation in the enhanced registry, and we will not repeat those arguments here. There is a practical need for project-based reporting that is due in part to the complexities of entity-wide reporting.

EPICI would oppose a narrow regime that focused on entity-wide reporting solely for the purposes of obtaining transferable credit. Such a reporting program would severely

discourage participation and thus seriously harm – if not cripple – the voluntary Power PartnersSM programs that are so inextricably linked to the 1605(b) program, as recognized by the President in his remarks of February 14, 2002. Moreover, as we discussed on April 1, the improved registry and 1605(b) reports should serve multiple purposes. At the election of the reporter, these may include: the recordation of transferable credit, baseline protection and credit for past actions; documentation of an entity or person's progress toward Climate VISION program goals; registration of research and development actions; public relations material and releases and annual reports; information to shareholders and the Securities and Exchange Commission; reports to state regulatory commissions and other regional and state governmental bodies; and reports to the Federal Energy Regulatory Commission and other federal governmental bodies.

The statute provides that the guidelines “establish procedures for the accurate voluntary reporting of information.” Because reporting is voluntary, the reporter should be able to choose not only whether that entity or person should elect to report at all, but also the extent of the information to be reported, so long as it is accurate. There is an “all or nothing” connotation in the use of the term “entity-wide” reporting that is contemplated by neither the plain words of the statute nor the Congress.

What is important and significant is the purpose of the participation intended by the person or entity. If the purpose is to obtain transferable credits or baseline protection, the reporting under the revised guidelines may need to be more rigorous in the criteria to be applied for such credits and protection, although those criteria should not, and need not, be dependent on entity-wide reporting, and should not result in a paperwork burden. As to the other purposes for volunteers to report, the criteria could be less rigorous while also being a significant improvement in accuracy, reliability and verifiability over the current guidelines.

We appreciate the opportunity to provide these additional comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Lee Ann Kozak", with a stylized flourish at the end.

Lee Ann Kozak
Co-chair, Accounting and Reporting Committee
Electric Power Industry Climate Initiative

Enclosures
WLF:hm

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**“The Purpose Of 1605(b) –
Not To Establish An Inventory Through Entity-wide Reporting”**

Selected Excerpt From EPICI March 5 “Positions Paper” (pp. 3-5)

Focusing exclusively on entity-wide reporting is objectionable for a number of reasons:

- Moreover, such narrowing of the section 1605(b) guidelines would not be consistent with either title XVI of EAct generally – which, as noted above, is about “**Global** Climate Change,” not U.S. climate change – or with section 1605(b), which is a part of title XVI. **Section 1605(b) is not directed at the establishment of an inventory through entity-wide reporting.** That is a role that EIA plays under EAct section 1605(a), which directs the Secretary, through EIA, to “develop, based on data available to, and obtained by,” EIA, “an inventory of the national aggregate emissions” of GHGs for a baseline period of 1987-1990 and to “annually update and analyze such inventory using available data.” EIA has issued the report – Emissions of Greenhouse Gases in the United States – every year since 1993.

The last sentence of section 1605(a) provides that the subsection “does not provide any new data collection authority.” Thus, in using that report EIA must use available data, and its inventory is based on **estimates**, not collected emissions. Indeed, the preface to the most recent EIA report for GHG emissions for 2001, dated December 2002, stated:

This report – the tenth annual report, as required by law – presents the Energy Information Administration’s latest **estimates** of emissions for carbon dioxide, methane, nitrous oxides, and other greenhouse gases. These **estimates** are based on activity data and applied emissions factors and **not on measured or metered emissions monitoring.**”

Although styled as an “Inventory of U.S. Greenhouse Gas Emissions and Sinks,” the annual report of the U.S. submitted pursuant to Decision 3/CP.1 of the Conference of the Parties to the United Nations Framework Convention on Climate Change (FCCC), is also an estimate of emissions and not truly an inventory (see FCCC/CP/1995/7/Add.1). Decision 3/CP.1, in requesting Annex I Parties to submit to the FCCC Secretariat national “inventory data on emissions,” recognized “that for some greenhouse gases and sectors or activities annual data may be less readily available or less relevant . . .” The report was previously submitted by the State Department, but is now prepared by the Environmental Protection Agency (EPA).

According to the EPA letter of June 25, 1998, to the House Committee on Science, the U.S. annual report of April 2002 was prepared pursuant to section 1103 of the Global Climate Protection Act of 1987 (15 U.S.C. § 2901) and

sections 103(b)(6) and (c)(2) of the Clean Air Act (42 U.S.C. §§ 7403(b)(6), (c)(2)). The Executive Summary stated (p. ES-1) that “the U.S. emissions inventory is comparable to those of other UNFCCC signatory countries” and the “**estimates** presented here were calculated using methodologies consistent with those recommended” (emphasis added) by the Intergovernmental Panel on Climate Change. It added, “For most source categories, the IPCC default methodologies were expanded, resulting in a more comprehensive and detailed **estimate** of emissions” (emphasis added). The EPA also told the House Science Committee that “numerous statistical and informational databases compiled by all levels of government, trade and research associations, and other public and private institutions provide the raw data inputs required to **estimate** the emissions by sources and removals by sinks of greenhouse gases” (emphasis added). The letter also said:

In 1994, the Energy Information Administration (EIA) and the EPA entered into a memorandum of understanding to coordinate our respective emission inventory activities. The EIA gathers and compiles detailed information on energy production and consumption, which forms the foundation for the energy-related greenhouse gas **estimates**. The EIA also reports on the carbon content of fossil fuels consumed in the U.S., developing emission factors that relate carbon emissions to fuel quantity burned.

* * * *

Uncertainties in our national emission **estimates** stem from our inability to actually measure emissions from each source; instead we collect data and measurements from a limited set of statistically representative sources and extrapolate the results to obtain national **estimates**.

(Emphases added.)

In the case of section 1605(b), the Secretary is to issue, pursuant to subsection 1605(b)(1), guidelines establishing “procedures” for the “voluntary reporting of information” on GHG emissions; reductions “achieved through any measures” annually, “including” forest management practices, tree planting and energy efficiency; reductions “achieved” as a result of plant or facility closings” and “State or Federal requirements”; and “an aggregate calculation” of GHG emissions “by each reporting entity.” Subsection 1605(b)(2) provides that EIA will issue forms to “entities that wish to report such information” and that “[p]ersons reporting under this subsection shall certify the accuracy of the information reported.”

ENTITY-WIDE REPORTING

Introduction

This paper examines issues to be addressed in setting boundaries for entity-wide reporting of greenhouse gas (GHG) emissions under the 1605(b) reporting program. The extent and scope of entity-wide reporting requirements – *i.e.*, the reporting “boundaries” – will depend on the purposes and goals of the reporter. Different rules may be appropriate if, for example, the reporting is intended only for establishing an inventory of an entity’s GHG emissions and not to register reductions as transferable credits. For this reason, it may be necessary to establish flexible rules on entity-wide reporting that are capable of accommodating multiple purposes and goals established for the GHG reporting system. Examples of possible purposes/goals include the following:

- Establishing a GHG emissions inventory for the reporting entity and tracking that entity’s emissions from year to year;
- Measuring the effectiveness of an entity’s voluntary efforts to mitigate GHG emissions on its own or pursuant to voluntary initiatives and programs (such as sector-specific Business Challenges proposed in the President’s climate change plan);
- Registering reductions as transferable credits that could be traded to other entities or used in a future GHG market-based or other climate policy program; and
- Providing baseline protection to ensure that reporting entities are not penalized under any future climate policy.

Since these goals will shape rules for entity-wide reporting, the structural and operational issues discussed below are addressed in light of multiple purposes and goals that may be established for the overall 1605(b) GHG reporting program.

Most important, a fundamental divide exists between the kind of a program that simply encourages companies to track and report their emissions and a program that also aims to provide companies with transferable credits and/or baseline protection. The first program type can afford to be flexible about reporting boundaries and need not impose specific criteria or requirements as a condition for participation. The second type of program, on the other hand, offers participating companies a potential climate policy benefit and therefore may need to be more rigorous with respect to reporting boundaries for those seeking that benefit. In particular, a program that offers to provide transferable credits

and/or baseline protection is more likely to draw reporting boundaries for those seeking those benefits in such a way as to prevent “leakage” (where a company earns a “reduction” by shifting an emitting activity outside the reporting boundaries) and “double counting” (where two companies earn credit for the same reduction). Regardless of program purpose, a priority for a reporting program will be minimizing administrative burdens to the greatest extent possible. What follows is a brief discussion of the boundary issues that should be considered in developing rules for entity-wide reporting under an enhanced 1605(b) system.

Structural Issues

Entities exist within multiple boundaries. Some are simple, like geographic ones; others are more complex, involving multiple industrial types or business units within the same corporate structure.

Geographic Scope. Some reporting entities may own GHG-emitting facilities located in only this country, while others may have such facilities in additional countries. Adopting entity-wide reporting rules subject to no geographic limitation may be unnecessarily broad since it would require the reporting of GHG emissions from facilities that the reporting entity owns in other countries. For this reason, any entity-wide reporting requirement should be limited to sources located in the United States, although entities should have the option of reporting on sources and projects located in other countries (so long as issues of double counting are addressed).

Industrial Types. Some reporting entities may be companies owning multiple business units involved in a variety of industry activities. One example could be a governmental entity that owns power plants that generate electricity for sale and also operates wastewater/sewage treatment facilities. Another example could involve a company that is engaged in multiple energy businesses, such as power generation, operating natural gas pipelines, and mining coal. **A key issue is whether an entity-wide reporting requirement should be imposed across all business units owned or operated by the reporting entity. Such a blanket rule would ensure a comprehensive inventory of emissions, but would increase reporting burdens and perhaps discourage participation in the voluntary reporting program in the first instance. On the other hand, if the reporting program aims to provide transferable credits and/or baseline protection, it may be appropriate to require comprehensive reporting in cases where the relationship between two separate business units may raise leakage, double counting or other issues.**

Business Structure. A related issue is whether to require entity-wide reporting across separate corporate entities under common ownership or control. This may be of particular concern in cases where each subsidiary company is engaged in the same industrial activities. In the power generation sector, for example, it is not uncommon for more than one business unit to generate electricity for sale. The rules for entity-wide reporting in such cases may need to ensure emissions from the same industrial activities are included, at least in cases where the reporting program is providing transferable credits or baseline protection.

Other Organizational Issues. Rules must also be developed to take account of joint ownership, acquisitions and divestitures so that different years' data may be directly compared. As discussed below, the issue of whether to allow the importation of project-based reductions from other countries must also be addressed.

Operational Issues

An entity operates within different sets of operational boundaries that are pertinent to a GHG reporting system. These boundaries can be described as which gases are emitted, how much is emitted, and from where are they emitted. Again, the purpose of the system will be a factor in operational decisions in these three categories. Maximum flexibility should be given to the reporting entity to determine these boundaries. However, to ensure that the majority of the entity's emissions are reported, the system could impose a requirement that a minimum level (such as 90 percent) of an entity's GHG emissions be included in the reporting, subject to the above structural issues.

Which Gases. The list of gases to be covered is the first operational issue that must be addressed (*i.e.*, plus or minus the Kyoto Protocol basket of six gases: CO₂, CH₄, N₂O, HFCs, PFCs, and SF₆). The reporting system should allow the entity to choose those gases that make up 90+% of its GHG emissions. In the case of a power generation entity, the major goals of the reporting program could be achieved by the reporting of only CO₂ emissions and allowing such entities to report the remaining gases at their own election.

How Much Emitted. Following a decision on which gases are to be required, threshold levels for reporting should be determined. In particular, entities should not be required to report emissions from sources under its ownership or control that are below specified *de minimis* levels. In making this determination, there will be tension between completeness and ease of administration. However, setting the threshold too low will vastly increase the sources an entity must look to account for.

Where Emitted. Once these two foundations have been established, an entity can consider remaining operational boundaries. The "where" boundary consists of four levels (direct, indirect (1 & 2), and entity-controlled land use). The most important reporting boundary will be for direct emissions (combustion, fugitive, and process). Sources of direct emissions must be identified and calculation methods (fuel factors; activity emission factors) chosen. The next boundary is that for indirect emissions (type 1) relating to imports of electricity, steam, and heat and purchased power for electric utilities. If the reporting system chooses to include indirect emissions, the entity will need to identify types of indirect emissions and choose calculation methods (activity emission rates). Another level of indirect emissions (type 2) is that associated with upstream and downstream operations (raw materials, product use and waste).

A remaining operational boundary is emissions and sequestration on entity-controlled lands, and a complete reporting system would need to accommodate this as well. It should be noted that no single measurement protocol exists for measuring sequestration

(just as there is no single measurement protocol for most other types of projects). However, sequestration techniques for measuring forestry projects are well-defined, and techniques for measuring soil carbon have also been implemented.

Adjustments to Entity-Wide Levels

After emissions have been accounted for under the operational decisions made above, several issues remain to enable a comprehensive inventory “tally” for an entity. If the reporting system will allow project-based emission reductions, it must be designed to allow an entity to apply these to its inventory (whether international or domestic project reductions are to be allowed will be an organizational boundary decision). The reporting program likely will have a set of criteria for recognition of project-based emission reductions, such as: 1) a demonstration that the reduction is below an appropriate baseline level; 2) measurement, monitoring and verification procedures; and 3) protections against leakage. An entity would own reductions through contracts related to the development of the projects. Examples include a landfill methane-to-electricity project or off-site sequestration. Finally, a system needs to be able to accommodate reporting the results from emission credit trades.

In addition, the accounting rules should allow entities to reflect reductions achieved by activities and projects at non-emitting facilities that translate into real and measurable reductions in GHG emissions. One such situation could involve a turbine efficiency upgrade that is implemented at a nuclear or hydro facility. Another situation could involve the installation of a solar, wind or other non-emitting, renewable energy generating facility. Entities should be allowed to adjust downward GHG emissions avoided as a result of the implementation of these activities and projects.